MIMI'S ROCK

Mimi's Rock Corp.
Q2 2022 Results Conference Call Transcript

Date: Monday, August 15, 2022

Time: 11:00 AM ET

Speakers:

David Kohler
Chief Executive Officer

Andrew Patient
Chief Financial Officer

Operator:

Welcome to the Mimi's Rock Corp. Q2 2022 Results Conference Call.

As a reminder, the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

I would now like to turn the conference over to David Kohler, CEO, with Mimi's Rock Corp. Please go ahead.

David Kohler:

Thank you very much.

Good morning, everyone. Thank you for joining us on our 2022 Q2 Results Call.

As you know, we filed our second quarter results on Thursday August 11, so after a few comments, I will turn it over to Andrew, our CFO, in order to make some financial updates.

First, I'd like to offer some colour on the results we released. Most importantly, our financial performance represents the continuation of our quarter-over-quarter as well as year-over-year improvement. Revenue and Adjusted EBITDA are continuing to grow and outperform prior years and periods. Obviously, this is great news, and the performance trend is continuing.

While Q3 is only half over, I'm happy to share that the positive trends have continued. This period has been the ultimate measure of how the efforts we've undertaken are impacting our business. We've taken advantage of opportunities to increase prices and press our supply chain for efficiencies. We're seeing our price increases sticking and our margins are therefore increasing.

This is the strongest quarter, not only in our trailing 12 months, but even if you look back to the year prior as well. We've been streamlining operations and have reduced our SG&A line and are making strategic decisions which are having impact now. They will also continue to bear fruit in the periods ahead.

Despite the stumblings we're seeing in the broader economy, our business is gaining momentum. In particular, our DTI business in the U.S. has been very strong. This is our biggest market, so when it is strong, it is a great anchor for our business in general. With that said, we're also developing multiple additional markets and are starting to see excellent growth on a percentage basis. Though the dollar volumes remain modest in some of these markets to date, they're coming along nicely. We're seeing good growth in multiple European markets and our expansion of our all-natural advice business into the U.S. is now selling nicely as well.

I'd like to take a moment to delve a little deeper into my comment about price increases. This is important as there's more to it than the simple act of increasing the list price. When we speak of price increases, we're talking about the net selling price of our products. This incorporates the advertised price, inclusive of discounting and promotions, and we have indeed raised our list prices, but we've also become much more judicious in terms of the deal cadences we employ.

In the Amazon ecosystem, momentum, often referred to as the Amazon flywheel, is critical and needs to be understood. Sales velocity contributes to the best seller ranking, or BSR, which impacts searchability, and ultimately, organic sales, so velocity is crucial, but it can lure sellers into a downward spiral of pricing.

Finding the right balance of discounting and velocity is a key to gaining and maintaining top seller rankings. Stated another way, you can win price wars, but you will not only crush your margins but you'll box yourself in as some Amazon sales events like Prime Day, Black Friday, etc., require the seller to offer formulated discounts from the lowest prices offered in the prior periods.

All this to say we've been working hard to coordinate our deals and our deal cadence. We're using couponing in many cases instead of discounting, which is having a very positive impact. We're seeing higher or net selling prices as a result.

During the Q2 period, we launched a number of product variations as well. These are things like two packs of popular products. We've seen robust sales of these items as consumers who like our products will take advantage of the lower overall pricing per unit which bundles yield. From our end, we save on shipping and handling, which offsets the discounting. This has contributed a nice lift in sales.

Also, as I've mentioned on previous calls, occasionally Amazon will suspend listings temporarily for what we feel, frankly, are sometimes odd reasons. In these cases, as I've illustrated in the past, we switched to fulfilled by manufacturer status. These variation SKUs offer a further buffer against any impact to our revenues in the event of a listing restriction, as these listings offer a consumer the same products.

Candidly, we aren't entirely happy with the performance of our skin care lines this year-to-date. However, we've taken decisions around branding initiatives, promotional activities, etc., and things which we expect will have a meaningful impact in the periods ahead. Also, we've started to slowly reduce the days of inventory on hand which we hold as we're seeing more normalization of our supply chains. We are still carrying inventory levels slightly higher than prior to COVID, but the process of bleeding things down towards our typical levels has begun.

You may recall that earlier this year, we announced that we conducted a full strategic review. It involved evaluating growth and expansion prospects, retrenching on certain initiatives, a full pricing and product sizing review, and an operational end-to-end critique. Through Q2, we have continued to implement these decisions and have continued to make difficult but necessary decisions in terms of structure, staff, and prioritization as we look to optimize our operations. Together, we are running things leaner and better, and we have several other strategic initiatives in scope which will have impact in the back half of this year and the beginning of next. All of this adds up to steady improvements.

You may have heard reports recently of how consumers have been moving back to bricks-and-mortar retail and how e-commerce businesses are slowing. While this was expected consumer behaviour as the pandemic loosens its grip on society, we nevertheless are extremely pleased to see the resilience our brands have and that our results are improving despite declines around us. Q2 reports from third parties has suggested that many categories of e-commerce have stalled of late, including health and beauty, which makes our performance even better in context.

Also worth noting, due to the challenges in the Chinese marketplace, we've yet to see any materialization of the sales volumes we expect. Meantime, we have our stores set up on Tmall and are still very bullish on the Chinese market and that it can be a robust one for us, so these will be incremental impacts once they start later this year.

I'd now like to turn to Andrew to provide us with a review of the financial results.

Andrew Patient:
Thanks, Dave.

The Company's most recent quarter was in fact one of our best in some time. I'll briefly summarize the results.

For the quarter ended June 30, 2022, consolidated revenues were $10,032,000 for the second quarter compared to $9,745,000 for the second quarter of '21.

EBITDA was $1.92 million compared to EBITDA of $1.101 million for the three months ended June 2021. Adjusted EBITDA, which adds back non-cash share-based comp and foreign exchange gains and losses, was $1.146 million for the second quarter of 2022 compared to $1.127 million for the same three-months period in 2021. The past quarter was actually our best results in over two years in terms of Adjusted EBITDA. A combination of strong top line revenue combined with solid margins translated into improved earnings performance.

Overall, second quarter performance reflected the continued improvement in the Dr. Tobias business, as revenues for the Company's Dr. Tobias supplements improved over Q1 2022 as well as the same quarter last year. We expect revenues to improve further as volumes increase while less discounts and promotions are applied. Recent price increases have not impacted volumes and have resulted in considerably stronger gross margins.

The Company's skin care businesses experienced somewhat of a transitional quarter with a focus on optimizing top-selling products while reducing discounting. While this resulted in overall higher average selling prices, volumes have not yet returned to prior-period levels. Management continues to focus on rebuilding momentum for these brands.

Online advertising for the period remained higher than historical levels, mainly as a function of ongoing campaigns, which are shown to drive higher volumes. In fact, advertising spend for the first six months of 2022 was higher relative to sales than the first six months of 2021, primarily due to additional direct advertising spend related to the growth in the DTI business. Advertising investment continues to be made in new markets for the skin care business as well as strategically in smaller markets for the supplements business. Advertising spend is managed to revenue levels, but certain core programs remain, with a focus on brand awareness, new customer acquisition, and customer loyalty. These investments are necessary components to the overall program and position the Company to drive organic growth going forward.

Cash flows have improved along with earnings. The Company generated almost $1.9 million from operating activities for the first six months of 2022 compared to just $358,000 for the first six months of 2021. As a result of the improved cash flows of the Company, we've been able to maintain our aggressive debt repayment, with the senior term loan now 50% repaid and a remaining balance of approximately $8.3 million. Our balance sheet is improving each period.

As Dave referenced, momentum has continued into Q3, with Prime Day last month being one of our best-ever sales days for both skin care and supplements. We're quite positive about the current outlook and optimistic that the next quarter will continue the trend we've set.

I'll now turn the call back to David.

David Kohler:
Thanks, Andrew.

When we look at both Qs 1 and 2 of 2022, we feel we're in a much improved place as compared to how we finished up 2021. We've seen stronger revenue and EBITDA numbers. We have better momentum, velocity, and margins. We see this continuing and expect a strong back half to the year as we continue to capitalize on the strategic moves we've made, and we continue to execute on our broader strategic plans. We expect to see continued strong revenue and EBITDA performance, and we'll look forward to discussing this with you at our upcoming calls.

I want to reaffirm that the pricing strategies we have employed are working. We're seeing better margins, profitability, and improved basket size on each transaction. Mindful of all this, we're confident we will continue to report strong performance as we go forward.

With that, I'd like to now open the line for questions.

Operator:
Thank you. The first question is from Antonia Borovina with Bloom Burton. Please go ahead.

Antonia Borovina:
Hi there. Congrats on the solid quarter.

My first question is whether you can provide any additional colour; specifically if you can quantify how much the supplements and the skin care businesses were up and down on a year-over-year basis?

Andrew Patient:
Yes. Actually, on a year-over-year, are you talking at the six months or the three months, and just—so quarter-over-quarter, I believe right now the skin care had a relatively flat quarter. It was down about 3% or 4%, I think, from the prior quarter last year, so the first quarter of this year was significantly lower than the first quarter of 2021, mainly because in 2021 we had really focused on promotions and discounting to increase the sales line but really suffered on margins.

We took a different approach in 2022 and we've really pulled back on that. It's resulted in lower volumes and overall lower sales, but we are making more money per product, and we do expect those volumes to increase. So right now, we're in that transition. It doesn't look good six-months-over-six-months, but each quarter, that gap is closing and it's getting better, and I feel like by Q3 or Q4, we'll sort of be back at the same or possibly higher revenue than the prior period.

On the DTI supplement side, I believe we were up 11% this quarter over the same quarter last year, which actually was our best quarter last year for DTI, and we beat that this year, so that trend is very strong, and as we said, it's continuing as well into Q3.

Antonia Borovina:
Just to clarify some of your commentary on the DTI business. I know the revenues were up 11% year-over-year, but did you see an increase in both volumes and revenue or...

Andrew Patient:
Volumes are actually still slightly lower, not much, but the units are actually lower, but the revenues are considerably higher, so it's all mainly to do with the price increases and the fact that when we do less discounting promotion, effectively what you're doing is increasing your average price because your net average selling price is higher and therefore your margins become stronger. DTI had also its strongest margins I think ever that I've seen. We were under 25% in the DTI business, which we've—I think historically it's been about 28.5%, so that's a significant improvement there.

Antonia Borovina:
Okay, and then with regard to the price increases, when did you initiate these price increases, and also, can you maybe provide a bit more colour on the commentary regarding using couponing more than traditional discounting and why that's leading to better margins for you guys, and then also if you plan any additional price increases this year?

Yes, David, let me just take the first one. I'll pass the second one to you.

So in the terms of the timing for the price increases, mainly they've been on the DTI side. We have increased them on the skincare side, but that's more about less discounting, but on the DTI side, we have two top products. Those have both had price increases. The colon cleanse product, which is our top-selling product by units, we have actually taken several price increases on that. We started last fall, late in the fall. We took, I think, a dollar a unit or something like that, which is pretty significant. It sells for about $15 at the time, and we've taken, I think, three or four increases since on that product.

We've now taken some on the fish oil as well, which is another bigger product. That was in, I think, earlier this year, late in the first quarter, but we're starting to see the benefits of that now. Then throughout the portfolio going down into products three through 30, we sort of went across the board on an average of about 12%, and that was, again, earlier this year. It wasn't all at the same time, but mainly in the middle of the first quarter.

I'll let Dave handle the other part of the question.

David Kohler:
Thanks, Andrew.

Yes, to speak to the way pricing works, you have an MSRP, or a manufacturer's normal price, which, if you look online, will sometimes be crossed out with a lower price if there's a discount offered or if there's a lightning deal or something of that nature running with the product. Couponing is slightly different in that there are coupons available to virtually clip. When you put a product into your shopping cart and clip a coupon, you have the opportunity to cash that coupon in when you check out, but what we've learned is that, surprisingly, not everyone does.

The redemption rates on the coupons are relatively lower than, obviously, the 100% collection on discounting straight off the price, so we looked at these things in conjunction and we've discovered that by discounting less, we certainly have maybe shirked off some of the, what I would call, value buyers, people that are just looking for deals all the time, which is potentially why we've seen a slight softening in the number of units sold, but when we look at the increase in both price and the reduction in discounting and then the sometimes not redeemed coupons, the net-net-net is that our selling prices were up substantially, more so than the cause of the drop from the slight reduction in units.

So, what we've learned is that we can massage those units, those variables together in order to optimize each sale, and then as Andrew noted earlier, what we're seeing is the cost of goods as a percentage of sales is dropping. We're seeing that our margins are up and that the revenue's climbing.

Antonia Borovina:
Okay. Great.

Then with regards to your selling and marketing expenses, they were up this quarter, so it sounds like this is the level required to sustain this level of revenues. Is that true? Is this what we should expect going forward, or do you think they could come down a bit?

Andrew Patient:
Let me try to answer that.

I think, in general, we do expect it to come down. What we were trying to allude to in the discussion earlier was the fact that DTI programs are working really well, and so we want those to continue, and I think we can see a lot more uplift there if we just keep putting our foot on the gas, and so we're not going to pull back on those when we're seeing the growth that we're seeing, and those are justified, but they are, obviously, causing a higher ad spend line.

On the other ones, on the skin care business, the fact right now is that the revenues aren't where they need to be, so obviously, the ad spend there as a proportion of the revenue is also not where it needs to be, but again, we're trying to rebuild that back, so there is a little bit more investment in those brands than in the other one.

So it's a combination right now of two things. We don't expect it to continue too long, but we do need to keep the foot on the gas at the moment. As we grow revenue, that percentage will come down. In other words, we will get a better efficiency of our ad spend as the revenues grow and we should expect that to drop, but that's probably a quarter or two out at least.

Antonia Borovina:
Okay. Thanks.

Then just finally, with regards to Prime Day, in the past, Prime Day has been a bit of a disappointment for you guys, and you mentioned that it typically requires significant discounts, but you mentioned that this Prime Day was quite successful for you even though you're doing less discounting, so can you maybe comment on what led to the success this time around, and also, if we can expect another uptick around the time of Black Friday?

David Kohler:
I'll be happy to speak to that, Antonia.

In the past—and forgive me, it's a bit of a convoluted answer, but just to refresh everybody—Prime Day is one of the days of the year which has a formulaic discount applied to it. Simply put, you have to offer a discount from the lowest price you've sold in the prior period, so if you've had deeper discounting in the period leading up to it, then in order to get the Prime Day deal on a listing on Amazon, you have to take a pretty aggressive cut to your price. So we were much more careful this year coming into the periods to make sure that we could continue to participate in Prime Day but do so in a way that each of the products that we were selling would contribute margin.

In the past, we've had big volume days with Prime, good revenue, and lots of unit movement, but very little margin, sometimes even none, so this year, we were very judicious about it. We had a much better situation in terms of our pricing and the health of the deals that we could run, and what we did was we were able to see that we got good volume, but we were making money in the process, so when we look at it from a bottom line contribution perspective, it was the best Prime Day we've ever had by a mile.

Antonia Borovina:
Great. Thanks for taking my questions.

Operator:

As there are no more questions, I will then turn the call over to Dave Kohler for any closing remarks.

David Kohler:

Thank you.

Thank you all for joining us on the call. We will be putting a transcript of this call on our website, so you may contact us through that portal at any time at www.mimisrock.com, or certainly feel free to reach out to me personally with any other follow-up questions. We look forward to communicating again with you soon. Thank you all and have a great day.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.